

Dŵr Cymru (Financing) Ltd

**Interim report and accounts
for the six months ended 30 September 2014**

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Interim income statement

		Six months ended 30 September 2014 (unaudited) £'000	Six months ended 30 September 2013 (unaudited) £'000	Year ended 31 March 2014 (audited) £'000
	Note			
Financing costs				
- Finance cost	3a	(48,432)	(44,200)	(94,482)
- Finance income	3a	48,487	44,296	94,675
- Fair value (losses)/gains on derivative financial instruments	3b	(23,049)	27,191	29,443
(Loss)/Profit before taxation		<u>(22,994)</u>	<u>27,287</u>	<u>29,636</u>
Taxation credit/(charge)	4	4,598	(6,276)	(10,869)
(Loss)/profit for the period		<u><u>(18,396)</u></u>	<u><u>21,011</u></u>	<u><u>18,767</u></u>

Underlying profit				
(Loss)/profit before taxation per income statement		(22,994)	27,287	29,636
Add back:				
- Effect of fair value losses/(gains) on derivative financial instruments		23,049	(27,191)	(29,443)
Profit before taxation and fair value adjustments		<u>55</u>	<u>96</u>	<u>193</u>

The notes on pages 6 to 10 are an integral part to these financial statements

Interim statement of changes in equity

	Six months ended 30 September 2014 (unaudited) £'000	Six months ended 30 September 2013 (unaudited) £'000	Year ended 31 March 2014 (audited) £'000
Deficit at start of period	(105,119)	(123,886)	(123,886)
Total comprehensive (expenditure)/income for the period	(18,396)	21,011	18,767
Deficit at end of period	<u>(123,515)</u>	<u>(102,875)</u>	<u>(105,119)</u>

The notes on pages 6 to 10 are an integral part to these financial statements.

Interim balance sheet

	At 30 September 2014 (unaudited) £'000	At 30 September 2013 (unaudited) £'000	At 31 March 2014 (audited) £'000
Assets			
Non-current assets			
Deferred tax asset	31,629	31,625	27,032
Financial assets: loans to group undertakings	<u>2,269,914</u>	<u>2,146,294</u>	<u>2,241,962</u>
	<u>2,301,543</u>	<u>2,177,919</u>	<u>2,268,994</u>
Current assets			
Financial assets:			
Loans to group undertakings	16,564	61,739	16,563
Derivative financial instruments	3,689	4,568	3,677
Cash and cash equivalents	1,827	1,633	1,811
Other receivables	<u>4</u>	<u>3</u>	<u>4</u>
	<u>22,084</u>	<u>67,943</u>	<u>22,055</u>
Total Assets	<u>2,323,627</u>	<u>2,245,862</u>	<u>2,291,049</u>
Liabilities			
Current liabilities			
Other payables	(22,898)	(41,044)	(639)
Financial liabilities:			
- Borrowings	(16,563)	(62,114)	(16,563)
- Derivative financial instruments	<u>(10,070)</u>	<u>(10,458)</u>	<u>(10,398)</u>
	<u>(49,531)</u>	<u>(113,616)</u>	<u>(27,600)</u>
Net current liabilities	(27,447)	(45,673)	(5,545)
Non-current liabilities			
Financial liabilities:			
- Borrowings	(2,246,978)	(2,104,794)	(2,241,324)
- Derivative financial instruments	<u>(150,633)</u>	<u>(130,327)</u>	<u>(127,244)</u>
	<u>(2,397,611)</u>	<u>(2,235,121)</u>	<u>(2,368,568)</u>
Net liabilities	<u>(123,515)</u>	<u>(102,875)</u>	<u>(105,119)</u>
Deficit	<u>(123,515)</u>	<u>(102,875)</u>	<u>(105,119)</u>

The interim financial statements on pages 2 to 5 were approved by the Board of Directors on 13 November 2014 and were signed on its behalf by:



Chris Jones
Chief Executive Officer



Peter Bridgewater
Finance Director

The notes on pages 6 to 10 are an integral part to these financial statements.

Interim statement of cash flows

	Six months ended 30 September 2014 (unaudited) £'000	Six months ended 30 September 2013 (unaudited) £'000	Year ended 31 March 2014 (audited) £'000
Cash flows from operating activities			
Interest received	48,486	44,296	94,675
Interest paid	<u>(26,173)</u>	<u>(54,313)</u>	<u>(145,000)</u>
Cash flows from operating activities - net	<u>22,313</u>	<u>(10,017)</u>	<u>(50,325)</u>
Cash flows from financing activities			
Intercompany loan (repaid)/received	(15,565)	16,860	(10,921)
Long-term loans received	-	-	75,000
Long-term loans repaid	<u>(6,732)</u>	<u>(6,733)</u>	<u>(13,466)</u>
Net cash (used in)/generated from financing activities	<u>(22,297)</u>	<u>10,127</u>	<u>50,613</u>
Increase in net cash and cash equivalents	16	110	288
Cash and cash equivalents at start of period	1,811	1,523	1,523
Cash and cash equivalents at end of period	<u>1,827</u>	<u>1,633</u>	<u>1,811</u>

Notes to the condensed interim financial statements

1. Basis of preparation

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently to all of the periods presented.

The interim report and accounts are for the six months ended 30 September 2014; they have been prepared in accordance with IAS 34, 'Interim financial reporting' as adopted by the European Union, using accounting policies consistent with International Financial Reporting Standards (IFRSs). The interim report and accounts should be read in conjunction with the annual financial statements for the year ended 31 March 2014, which have been prepared in accordance with IFRSs as adopted by the European Union.

The principal accounting policies adopted in the preparation of these condensed consolidated interim financial statements are consistent with those of the previous set of published Annual Report and accounts for the year ended 31 March 2014, other than the adoption, with effect from 1 April 2014, of new or revised accounting standards, as set out below;

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interest in Other Entities
- Amendment to IAS 27 (Revised 2011) Separate Financial Statements
- Amendment to IAS 28 (Revised 2011) Investments in Associates and Joint Ventures

The adoption of these standards and interpretations has not had a material effect on the results or financial position of the group.

The following new standards, new interpretations and amendments to standards and interpretations have been issued but not effective for the financial year beginning 1 April 2014 and have not been adopted early:

- IFRS 9 Financial instruments (expected to be effective 1 January 2018)
- IFRS 14 Regulatory Deferral Accounts (effective 1 January 2016)
- IFRS 15 Revenue from Contracts with Customer (expected to be effective from 1 January 2017)
- Amendments to IFRS 11 Accounting for Acquisitions of Interest in Joint Operations (effective 1 January 2016)
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (effective 1 January 2016)
- Amendments to IAS 27 Equity Method in Separate Financial Statements (effective 1 January 2016)

These financial statements are unaudited. The interim financial results do not comprise the company's statutory accounts within the meaning of Section 434 of the Companies Act 2006. The results shown for the year ended 31 March 2014 have been derived from the company's audited full financial statements filed with the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain a statement under Section 498(2) of 498(3) of the Companies Act 2006.

The accounting policies adopted are consistent with those of the previous set of published Annual Report and Accounts for the year ended 31 March 2014. The Annual Report and Accounts are published on the group's website www.dwrcymru.com and are available from the Company Secretary on request.

Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2014, with the exception of changes in estimates that are required in determining the provision for income taxes and disclosure of exceptional items.

Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual earnings.

Going concern

The directors believe that preparation of the financial statements on a going concern basis is appropriate due to continued financial support from the ultimate parent company Glas Cymru Cyfyngedig. The directors have received

Notes to the condensed interim financial statements

confirmation that Glas Cymru Cyfyngedig intends to support the company for at least one year after these financial statements are signed.

The group is in a net liabilities position as at 30 September 2014. This does not represent any risk to cash flow or funding; £32 million of liabilities relate to derivative financial liabilities and assuming they are held to maturity will

revert to zero with no cash impact. Excluding derivative financial instruments, the group had net current assets of £10 million as at September 2014. The group is also in the process of agreeing a further £230 million loan facility with the European Investment Bank.

The directors have a reasonable expectation that the group has adequate resources available to it to continue in operational existence for the foreseeable future and have therefore continued to adopt the going concern policy in preparing the condensed consolidated interim financial statements. This conclusion is based upon, amongst other matters, a review of the group's financial projections together with a review of the cash and committed borrowing facilities available to the group as well as consideration of the group's capital adequacy. In addition, the directors also considered the primary legal duty of Glas Cymru's economic regulator, to ensure that the companies can finance their functions.

2. Segmental information

The company's business is solely to act as an investment company providing long-term funding for the activities of Dŵr Cymru Cyfyngedig and therefore it operates in a single segment.

3. Financing costs

	Six months ended 30 September 2014 £'000 (unaudited)	Six months ended 30 September 2013 £'000 (unaudited)	Year ended 31 March 2014 £'000 (audited)
a) Financing cost before fair value (losses)/gains			
Interest payable on loans	(48,432)	(44,200)	(94,482)
Interest receivable :			
Intercompany	48,482	44,292	94,667
External	5	4	8
Net interest receivable before fair value adjustments	<u>55</u>	<u>96</u>	<u>193</u>
b) Fair value (losses)/gains on derivative financial instruments			
Fair value (losses)/gains on interest rate swaps	<u>(23,049)</u>	<u>27,191</u>	<u>29443</u>

Whilst the group employs an economically effective policy using interest rate and index-linked swaps, the hedge accounting criteria of IAS 39 are not satisfied. Consequently, the company's interest rate and index-linked swaps are fair valued at each balance sheet date with the movement (net loss or gain) disclosed in the income statement. Over the life of these swaps, if held to maturity, these fair value adjustments will reverse and reduce to zero. The notional value of the interest rate swaps is £192m (2013: £192m) and the index-linked swaps £100m (2013: £100m).

Notes to the condensed financial statements cont'd

4. Taxation

	30 September 2014 £'000 (unaudited)	30 September 2013 £'000 (unaudited)	31 March 2014 £'000 (audited)
Deferred tax			
Current year movements	(4,598)	6,276	10,869
(Loss)/Profit before tax	(22,994)	27,287	29,636
(Loss)/Profit before tax multiplied by the corporation tax in the UK of 21% (six months to 30 September 2013: 23%)	(4,829)	6,276	6,816
Effects of:			
Effect of tax rate change	231	-	4,053
Total taxation (credit)/charge	(4,598)	6,276	10,869

Notes to the condensed financial statements cont'd

5. Analysis and reconciliation of net funds

a) Net funds at the balance sheet date may be analysed as:	30 September 2014	30 September 2013	31 March 2014
	£'000	£'000	£'000
	(unaudited)	(unaudited)	(audited)
Cash and cash equivalents	1,827	1,633	1,811
Financial assets: group receivables	2,286,478	2,208,033	2,258,525
	2,288,305	2,209,666	2,260,336
Net accrued interest	(22,898)	(41,044)	(639)
Debt due after one year	(2,246,978)	(2,104,794)	(2,241,324)
Debt due within one year	(16,563)	(62,114)	(16,563)
	(2,286,439)	(2,207,952)	(2,258,526)
Net funds	1,866	1,714	1,810
b) The movement in funds debt during the period may be summarised as:	30 September 2014	30 September 2013	31 March 2014
	£'000	£'000	£'000
	(unaudited)	(unaudited)	(audited)
Net funds at start of period	1,810	1,618	1,618
Increase in net cash	16	110	288
Increase/(Decrease) in receivables	27,951	(1,595)	48,897
Decrease/(Increase) in debt	6,719	29,817	(65,031)
Increase/(Decrease) in net funds arising from cash flows	34,686	28,332	(15,846)
Amortisation of bond issue premium	312	591	591
Indexation of index-linked debt	(12,684)	(38,940)	(35,071)
Movement in accrued interest	(22,258)	10,113	50,518
Movement in net funds during the period	56	96	192
Net debt at end of period	1,866	1,714	1,810

Notes to the condensed consolidated financial statements cont'd

6. Financial risk management and financial instruments

The company's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the group's annual financial statements as at 31 March 2014. There have been no changes in the risk management department or in any risk management policies since the year end.

In accordance with IFRS 13 Fair Value Measurement trading and treasury derivatives of the company are categorised into different levels;

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

All of the groups trading and treasury derivatives are categorised at Level 2 and as at 30 September 2014 were valued as follows:

- Assets: Trading derivatives £0.0m, Treasury derivatives £3.7m. (March 2014: Trading derivatives £0.0m, Treasury derivatives £3.7m); and
- Liabilities: Trading derivatives £0.0m, Treasury derivatives £160.7m. (March 2014: Trading derivatives £0.0m, Treasury derivatives £137.6m).

Trading derivatives relate to power price hedges and are not recorded on the balance sheet. Treasury derivatives relate to interest rate swap contracts and are recorded on the balance sheet at fair value. These have all been assessed as Level 2.

The power price hedging contracts have been fair valued using rates that are quoted in an active market. While interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

Level 2 debt investments are valued using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable market prices of other quoted debt instruments of the counterparties.

Dwr Cymru (Financing) Limited

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Grand Cayman, Cayman Islands

Management responsibility statement of the Board of directors

To the best of our knowledge, the financial statements prepared in accordance with the International Financial Reporting Standards as adopted by the European Union give a true and fair view of the assets, liabilities, financial position and profit or loss of Dwr Cymru (Financing) Limited (the "Issuer").

To the best of our knowledge, the management report includes a fair view of the development and performance of the business and the position of the Issuer, together with a description of the principal risks and uncertainties that we face.



Director:
Name: Christopher Alun Jones



Director:
Name: Peter Bridgewater